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HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MEWENS
NSC FOR JSHRIER
COMMERCE FOR 4431/MAC/WH/MCAMERON

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TAGS: [ECON](#) [EFIN](#) [KTFN](#) [VE](#)
SUBJECT: NEW BANKING SUPERINTENDENT OPTIMISTIC ABOUT HEALTH
OF FINANCIAL SECTOR

REF: CARACAS 930

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b)
and (d).

11. (C) Summary: Newly appointed Superintendent of Banks Maria Elena Fumero (strictly protect throughout) told Econcouns she believes the financial sector is generally in good shape. The structured notes (reftel) were problematic, she said, but did not represent a systemic threat to the sector. The Superintendency of Banks (SUDEBAN) had received divestment proposals from banks holding structured notes and was working with individual banks to develop appropriate plans. Fumero strongly criticized the foreign investment banks that developed the structured notes, arguing that they were "complicit" in helping local banks evade regulations. Fumero, who previously worked as an advisor to former Minister of Finance Rafael Isea and as a legal advisor to SUDEBAN, portrayed herself as a professional, not a politician, who was interested in building SUDEBAN's institutional capacity and welcomed cooperation with the U.S. on issues of shared concern such as countering terrorist financing and money laundering. End summary.

Financial Sector Generally Sound

12. (C) In a July 16 meeting with Econcouns and Econoff, Fumero, who was appointed to her post in early May, said the financial sector was generally in good shape. She noted some concern with a recent increase in bad loans, describing it as something "to keep an eye on" rather than an immediate problem. She also expressed her intention to push banks to increase their provisions for bad loans. (Note: According to statistics she provided us, bad loans rose from 1.2 to 1.7 percent of the overall portfolio from December 2007 to May 2008, and during the same period provisions fell from 174 to 134 percent of bad loans. End note.) Asked whether recent complaints by businesses and individuals that credit was becoming increasingly harder to obtain were a sign of problems in the sector, Fumero argued that banks had the money to lend but often preferred to make other investments (e.g., in bonds). Intellectually, she continued, she did not like the idea of directed credit, but in Venezuela "sometimes you have to force the bankers to lend or else they won't do it." Fumero said she planned to tighten the definitions for the directed credit portfolios, particularly the agricultural

one. (Note: Almost 50 percent of banks' loan portfolios are directed by BRV resolution. End note.) Finally, she stated that the BRV had no intention of nationalizing the banking sector.

Structured Notes not a Systemic Risk

13. (C) Turning to the issue of structured notes, Fumero explained that banks, perhaps over-reacting to various political statements made by President Chavez, had sought to increase their holdings of foreign currency assets above the limit set by the Central Bank (BCV), whereby a bank's net position in foreign currency cannot exceed 30 percent of its capital. Local banks acquired the structured notes, which are bolivar-denominated notes issued by foreign investment banks backed by underlying dollar-denominated assets deposited by the local banks, in an effort to evade this limit. Fumero severely criticized the foreign investment banks for their "complicity" in helping local banks evade the limit, singling out Lehman Brothers in particular. She claimed the World Bank/IMF team that came to provide technical advice to the BRV on the issue was also surprised by the disingenuous behavior of the foreign banks. (Note: According to statistics Fumero provided, the net foreign currency position of universal banks was 53 percent of the maximum allowable limit, and that of commercial banks was 78 percent of the limit. Fumero said the BCV collected this information from banks on a regular basis, though the date of these particular figures was not given. End note.)

14. (C) Fumero stated that local banks holding structured notes had submitted divestment plans to SUDEBAN as required by BRV resolutions. These plans included a timeframe for getting rid of the notes and a related plan for dealing with losses where appropriate. Several of the larger banks holding the notes had already divested themselves of them, she continued. Other banks had asked for more time, she intimated, and SUDEBAN would either accept or slightly modify these proposals except in a few cases where they were "unacceptable." Fumero said the structured notes did not represent a systemic problem for the banking sector, but that there were some specific problems. In one case, she said, a local bank had obtained a structured note without any underlying dollar assets, and in other cases the underlying assets had been acquired at an exchange rate of approximately 6 bolivars (Bs)/USD, thus implying a significant loss in value (as the current parallel exchange rate is about 3.5 Bs/USD). Fumero said she had recently met with two analysts from Standard & Poor's interested in assessing the impact of the structured notes issue on the financial sector. She expected their report to be negative, she continued, as they were rude, aggressive, and demanding.

Saying the Right Things

15. (C) Fumero, a lawyer whose recent positions include advisor to former Minister of Finance Rafael Isea and legal advisor to SUDEBAN, characterized herself as a professional, not a politician, who was interested in building SUDEBAN's institutional capacity and improving banking oversight. She claimed that current Minister of Finance and Economy Ali Rodriguez and even President Chavez respected her as a professional and supported her efforts. While not directly criticizing her predecessor, Trino Alicides Diaz, she implied he had taken a more political approach and had allowed SUDEBAN's technical oversight to slip. She said she welcomed cooperation with the USG on matters such as countering terrorist finance and money laundering. When asked who the current head of SUDEBAN's Financial Intelligence Unit (UNIF) was, Fumero replied she had appointed a technocrat from within UNIF, Carmen Judyth Romero (whom she subsequently introduced), to take the place of Francisco Canela. Fumero noted that Romero's appointment reflected her philosophy of

trying to build SUDEBAN as an institution, rather than "bringing in a colonel from DISIP." (Note: Canela was a colonel from DISIP, Venezuela's intelligence service. Separately, we are unsure if Romero's appointment is permanent, as another contact within SUDEBAN told Econ Specialist July 9 that Canela's replacement had yet to be named. End note.)

Comment

16. (C) On the structured notes, Fumero's remarks suggest the BRV will not allow the issue to develop into a crisis and SUDEBAN will show flexibility to many of the banks involved. More generally, we welcome Fumero's claimed technocratic orientation, especially as regards to countering terrorist financing and money laundering, and we will certainly test her willingness to cooperate with us on those issues. Banking sector contacts we have spoken with also believe Fumero to be honest and more technically oriented than her predecessor. It will be interesting to see how she balances the political pressures inherent in her position with her professed desire to improve oversight of the banking sector. End comment.
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